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**Finance Committee**

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**HB 2106**

**Brief Description:** Exempting service contracts to administer parking and business improvement areas from excise taxation.

**Sponsors:** Representatives Pettigrew, McIntire, Ahern, Wood and Santos.

**Brief Summary of Bill**

- Provides a business and occupation tax exemption for amounts received by a chamber of commerce or similar business association for the purposes of administering a parking and business improvement area.

**Hearing Date:** 3/3/05

**Staff:** Mark Matteson (786-7145).

**Background:**

*Business and Occupation Tax.* Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. The tax is imposed on the gross receipts from all business activities conducted within the state. Revenues are deposited in the state General Fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. The tax rate for most types of businesses that provide services is 1.5 percent.

While governmental entities are exempt from the B&O tax, payments received by nonprofit organizations by governmental entities or from charges to the organization's members are not exempt unless there is a specific provision in law that allows otherwise. One example of such a specific exemption is a deduction that is allowed to condominium associations for payments received by members of the association, if the funds are used for maintenance and upkeep of the residences and commonly held property.

*Municipal business and occupation taxes.* Cities may also impose gross receipts taxes on business activities. Thirty-seven cities impose B&O taxes. The Legislature limited city B&O taxes to a maximum rate of 0.2 percent in 1982, but higher rates are allowed if approved by the voters in the city, or if a higher rate was in effect prior to January 1, 1982. Cities imposing a B&O tax for the first time after April 22, 1983, and cities increasing tax rates, must provide for a referendum procedure to apply to the ordinance imposing or increasing the tax.

*Parking and Business Improvement Areas.* Under state law, all counties, cities, and towns (local governments) may create parking and business improvement areas (PBIA) that are designed to aid general economic development and to facilitate merchant and business cooperation. The activities in a PBIA are financed through a special assessment that is imposed on businesses, multifamily residential developments, and mixed-use developments located within the geographic boundaries of the area. The assessments can be used to finance: (1) construction, acquisition, or maintenance of parking facilities in the area; (2) decoration of public areas; (3) promotion of public events in public places in the area; (4) furnishing of music in any public place in the area; (5) provision of maintenance and security of common public areas; or (6) management, planning, and promotion of the area, including the promotion of retail trade activities in the area.

The local government is authorized to contract with a chamber of commerce or other similar business association operating primarily within the boundaries of the legislative authority to administer the operation of a parking and business improvement area. There are a number of business associations that do so, including the Downtown Spokane Partnership and the Chinatown-International District Business Improvement Area in Seattle. The law governing the authority of PBIA provides that the contract administrator must lawfully comply with all applicable provisions of law.

**Summary of Bill:**

Amounts received by a chamber of commerce or other similar business organization for the purposes of administering a parking and business improvement area are exempt from the B&O and retail sales and use taxes, and no city may impose a municipal B&O tax on such amounts.

The bill is retroactive to December 31, 1999.

**Appropriation:** None.

**Fiscal Note:** Requested on February 18, 2005.

**Effective Date:** The bill is takes effect 90 days after adjournment of the session in which it was passed.